

DWR KEEPS POWER FLOWING

During Unprecedented Energy Crisis

The order itself was straight-forward enough—keep the power flowing in California. But the task was enormous—purchase enough electricity for more than 27 million people during a period when supplies were scarce and prices were skyrocketing out of control.

On January 17, 2001, the Department of Water Resources (DWR)—known for its quick response to floods, protecting the Delta, or helping meet the water needs of California communities—was put on the front line of California's energy crisis with this very task.

It was a dark time in California history, both figuratively and literally. The California Independent System Operator relied on rotating blackouts to prevent a widespread collapse of the State's electrical grid, major utilities were in deep financial trouble, while energy companies took full advantage of a dysfunctional energy market.

Within hours of the Governor's issuing of an Emergency Declaration, DWR mobilized with organized swiftness and created a new division within DWR, the California Energy Resources Scheduling (CERS) division. Staffed with State employees and hired consultants, CERS gathered in a hastily prepared emergency operations center in Sacramento to begin daily power purchases. The scale of energy purchases CERS was being asked to undertake dwarfed that of meeting the 2,000 megawatt demand to power the State Water Project. Overnight, DWR became the largest single power buyer in the West. During the first few weeks, more than 30 people were added to fill positions in operations, planning, logistics, finance, and public information.

The CERS trading room was a 24-hour a day, seven day a week operation where high-stakes bartering took place with sellers who knew that California was desperate for

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Members of CERS' contracts, fuel and settlements teams gather for their weekly meeting. (Left to Right) Staff include Jon Edward, Tom McGivney, Bob Grow, Chuck Toney, George Baldini, John Pacheco and Carol Hurlock.

electricity. Average costs for energy were peaking at more than \$300 per megawatt hour, nearly 10 times its fair market value. With a loan from the State's General Fund, CERS was spending more than \$1 billion a month in the first half of 2001. CERS staff was working round the clock, sleeping overnight in conference rooms rather than going home. During the summer of 2001, CERS had purchased 17,000 megawatts of power, enough electricity to supply 17 million homes and businesses.

"It was likely the most difficult and challenging period of my career," said DWR Deputy Director **Pete Garris**, who oversaw energy purchases and energy delivery activities since day one of the DWR's involvement in the crisis. Garris retired in 2006. "We were working in a fast-paced, unstable environment while trying to keep supplies up and prices down."

To do that, CERS began to reduce the amount of electricity it needed to buy out of the volatile daily spot market by negotiating long-term contracts that would lock in more stable, predictable prices. The contracts had an additional benefit desperately needed in California: it brought more than 5,000 megawatts of newly built power supplies to the State. In total, the Department entered into 56 long-term agreements in 2001 at a cost of \$42 billion over 12 years.

Although costly, contracted energy deliveries had a dramatic tempering effect on spot market prices. The average spot market price of electricity fell from \$355 per megawatt hour in January 2001 to \$72 a megawatt hour just five months later.

CERS also was successful in its main goal of keeping power flowing to California residents and businesses. There were no power interruptions in the summers of 2001 or 2002, an accomplishment that critics predicted was impossible at the time.

In late 2001, the mounting evidence that energy companies manipulated energy prices by shutting off powerplants and caused "phantom" congestion of power lines to stop energy deliveries into California gave CERS the leverage it needed to begin renegotiating most of the power contracts it had entered into during the height of the crisis. By the end of 2003, CERS had successfully renegotiated 34 of its original 56 agreements—saving more than \$6.3 billion in contract costs. In addition, CERS successfully negotiated refunds from energy companies for overcharging market prices—a savings of an additional \$5.1 billion.

In October and November 2002, CERS sold \$11.2 billion in bonds—the largest bond sale in California's history—to pay for its power purchases. Bond proceeds were used to repay \$6.5 billion to the General Fund, retire a \$3.4 billion short-term loan, and to maintain adequate reserve levels.

CERS concluded its daily power purchases operation on January 1, 2003, successfully returning that daily responsibility to the utilities.

Today, CERS continues to manage its long-term contract portfolio as well as its bond debt. The task of effectively managing the State's portfolio of contracts and bond financing is important for maintaining reliability in California's energy supplies while maintaining the lowest possible costs for ratepayers. Both of these complex and critical responsibilities will continue until the last of the contracts expires in 2015 and the bond is completely retired in about 2020. ■

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(Left to Right) Contract Analysts Stephanie King and Cindy Percival meet with Parviz Karami of CERS' Invoice Validation Unit.

